

Fiscal Note

Fiscal Services Division



SF 304 – Targeted Jobs Withholding Tax Credit Program (LSB1481SV)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – New

Description

Senate File 304 extends the deadline for creating targeted jobs withholding tax credit agreements.

Background

The Pilot Project Withholding Tax Credit Program was created in House File 2731 (Pilot Project Targeted Jobs Act of 2006). The Program allows five designated Iowa cities to enter into agreements with employers located within an Urban Renewal (Tax Increment Financing) Area. Employers under the agreement are required to pay at least the average county wage and either create or retain a minimum of 10 jobs or make a qualifying investment of at least \$500,000.

The agreement allows the city to receive an amount up to 3.0% of the gross wages paid to qualified employees. Instead of remitting employee withholding to the State General Fund, the employer remits the withheld income tax to the city for deposit in a Tax Increment Financing Account. The employee withholding tax received by the city must be used for an urban renewal project related to the employer. An agreement can redirect employee withholding tax for a maximum of ten years.

Employers are allowed to enter into a pilot project withholding agreement and a job training agreement under Chapter 260E, Code of Iowa for the same jobs. Employee withholding is required to first fund the 260E agreement before funding the pilot project withholding agreement.

Under current law, authority to enter into pilot project withholding agreements expires June 30, 2010.

Assumptions

1. The Department of Economic Development reports that through December 2008, pilot cities had entered into withholding agreements with employers totaling \$19.4 million. At the end of that month, the Program had been in effect for 2.5 years, so the annual amount of withholding agreements is \$7.75 million. This amount will be received by the pilot cities over a 10-year period.
2. Although current economic conditions may slow overall economic development in Iowa and nationally, 50.8% of the \$19.4 million withholding impact of this Program occurred in the 12 months ending December of 2008, indicating the Program still has significant demand. Using a value of \$7.75 million per year provides for a 25.0% reduction in the pace of withholding agreements.
3. Since the Program is already operational, there is no lag time before the fiscal impact begins.

Fiscal Impact

Extending the Pilot Project Withholding Agreement Program for three years to June 30, 2013, will increase withholding receipt deposits of the five pilot project cities and decrease net State General Fund receipts by \$23.25 million over 12 fiscal years. The amount by fiscal year is provided in the first column of the following table.

General Fund Revenue Reduction in Millions of Dollars				
	Fiscal Impact Total	Fiscal Year of Agreement		
		FY 2011	FY 2012	FY 2013
FY 2011	\$ 0.78	\$ 0.78	\$ 0.00	\$ 0.00
FY 2012	1.55	0.78	0.78	0.00
FY 2013	2.33	0.78	0.78	0.78
FY 2014	2.33	0.78	0.78	0.78
FY 2015	2.33	0.78	0.78	0.78
FY 2016	2.33	0.78	0.78	0.78
FY 2017	2.33	0.78	0.78	0.78
FY 2018	2.33	0.78	0.78	0.78
FY 2019	2.33	0.78	0.78	0.78
FY 2020	2.33	0.78	0.78	0.78
FY 2021	1.55	0.00	0.78	0.78
FY 2022	0.78	0.00	0.00	0.78
	\$ 23.25	\$ 7.75	\$ 7.75	\$ 7.75

Source

Department of Economic Development

/s/ Holly M. Lyons

March 25, 2009

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56, Code of Iowa](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.